

Historic City of

Panguerville

Settled 1858

"It's the People"

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

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FINANCIAL SECTION



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

Independent Auditors' Report

The Honorable Mayor and
Members of the City Council
Toquerville, Utah

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toquerville, Utah, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Toquerville's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Toquerville as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2005, on our consideration of the City of Toquerville's internal control structure over financial reporting and on our tests of its compliance with laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-9, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund financial statements and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Toquerville, Utah. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
December 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Toquerville (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$ 3,990,509 at the close of the fiscal year.
- Total net assets increased by \$2,272,791. The primary factor in the dramatic change in net assets was due to the Anderson Junction Special Improvement District assessment of \$1,708,000.
- Total revenues from all sources were \$2,696,066 and the total cost of all City programs was \$408,476.
- Total revenue received in the General Fund was \$56,553 more than the final budget and expenditures were \$58,327 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$34,477, which is a reduction from fiscal year 2004's unreserved fund balance of \$63,777.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or jurisdiction, the availability of capital projects, and condition of the City's assets to accurately assess the overall health of the City. The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, highways and streets, parks and recreation, cemetery, community development, and capital outlay. Property taxes, sales taxes, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City currently only has one proprietary activities fund. It is the water fund.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and footnote 2.
- **Proprietary funds** – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$3,990,509 as of June 30, 2005 as shown on the following condensed statement of net assets. The City has chosen to account for its water fund in an enterprise fund which is shown as a business-type activity.

	Governmental activities		Business-type activities	
	6/30/2005	6/30/2004	6/30/2005	6/30/2004
Current and other assets	\$ 336,970	\$ 250,524	\$ 2,329,973	\$ 463,827
Capital assets	671,831	560,359	2,328,994	2,162,666
Total assets	<u>1,008,801</u>	<u>810,883</u>	<u>4,658,967</u>	<u>2,626,493</u>
Long-term liabilities outstanding	-	-	1,647,667	1,547,146
Other liabilities	22,229	26,186	7,363	267,655
Total liabilities	<u>22,229</u>	<u>26,186</u>	<u>1,655,030</u>	<u>1,814,801</u>
Net assets:				
Invested in capital assets, net of related debt	671,831	560,359	681,327	448,520
Restricted	227,886	160,561	1,976,750	204,226
Unrestricted	86,855	63,777	345,860	158,946
Total net assets	<u>\$ 986,572</u>	<u>\$ 784,697</u>	<u>\$ 3,003,937</u>	<u>\$ 811,692</u>

Governmental Activities

The cost of all Governmental activities this year was \$314,117. \$262,053 of this cost was paid for by those who directly benefited from the programs, \$66,863 was subsidized by grants received from other governmental organizations for operations and capital activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$328,916. General revenues, including taxes, impact fees, and investment earnings totaled \$161,104.

The City's programs include: General Government, Public Safety, Highways and Streets, Culture and Recreation, and Community Development. Each program's revenues and expenses are presented below.

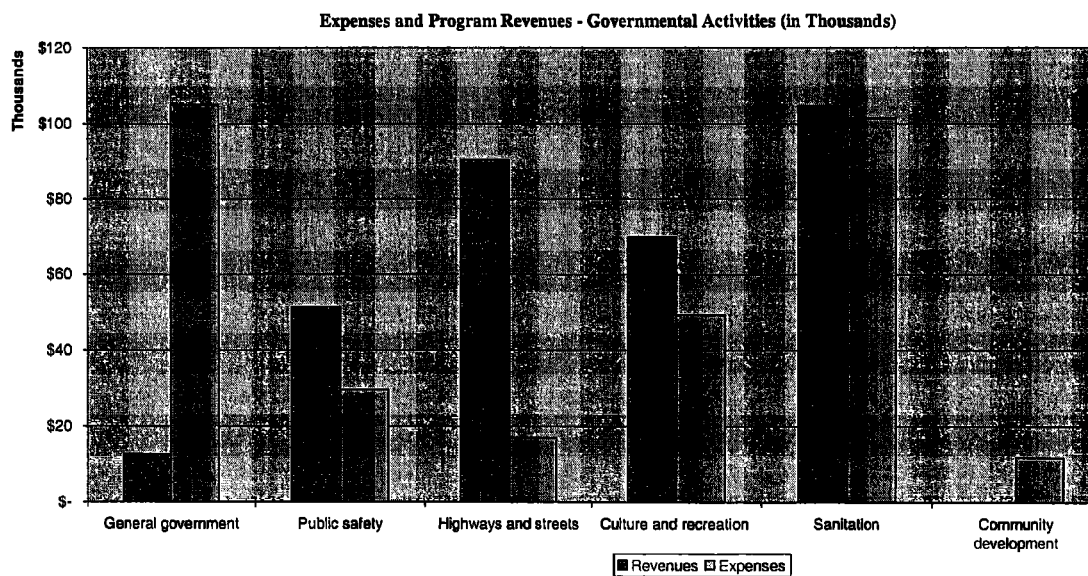
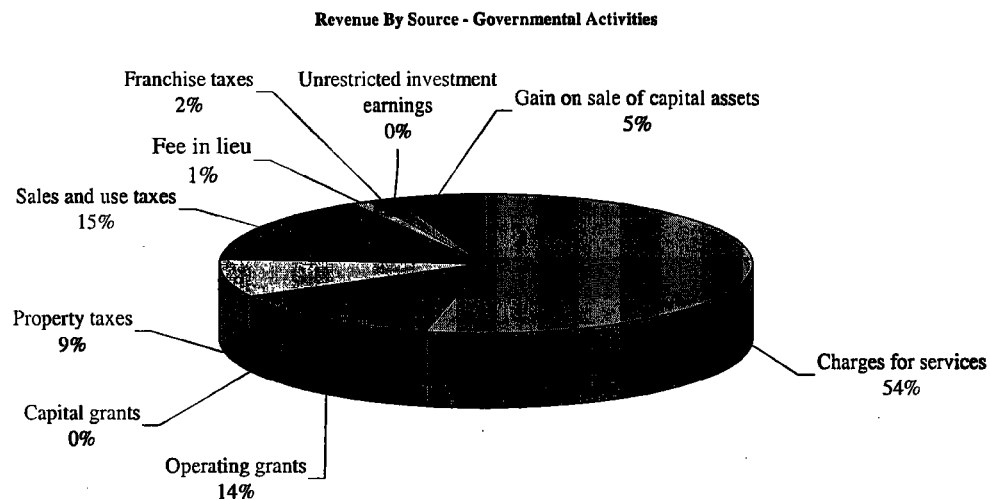
TOQUERVILLE CITY

Changes in Net Assets

	Governmental activities		Business-type activities	
	6/30/2005	6/30/2004	6/30/2005	6/30/2004
Revenues:				
Program revenues:				
Charges for services	\$ 262,053	\$ 140,394	\$ 75,686	\$ 76,708
Operating grants and contributions	66,863	41,975	-	-
Capital grants and contributions	-	-	2,103,377	-
General revenues:				
Taxes	134,247	121,264	-	-
Other revenue/(expense)	26,857	43,359	12,184	27,594
Total revenues	<u>490,020</u>	<u>346,992</u>	<u>2,191,247</u>	<u>104,302</u>
Expenses:				
General government	105,008	110,723	-	-
Public safety	29,591	21,124	-	-
Highways and streets	16,967	19,951	-	-
Culture and recreation	49,274	39,066	-	-
Sanitation	101,449	97,971	-	-
Community development	11,828	-	-	-
Water distribution	-	-	94,359	119,300
Total expenses	<u>314,117</u>	<u>288,835</u>	<u>94,359</u>	<u>119,300</u>
Increase/(decrease) in net assets before transfers	175,903	58,157	2,096,888	(14,998)
Transfers	-	-	-	-
Net assets, beginning	784,697	726,540	811,692	826,690
Prior period adjustment	25,972	-	95,357	-
Net assets, ending	<u>\$ 986,572</u>	<u>\$ 784,697</u>	<u>\$ 3,003,937</u>	<u>\$ 811,692</u>

Total resources available during the year to finance governmental operations were \$1,300,689 consisting of Net assets at July 1, 2004 of \$810,669 (includes prior period adjustment of \$25,972), program revenues of \$328,916 and General Revenues of \$161,104. Total Governmental Activities expenses during the year were \$314,117; thus Governmental Net Assets were increased by \$175,903 to \$986,572.

The following graphs provide a breakdown of revenues by source for all government activities and compare program expenses to program revenues.



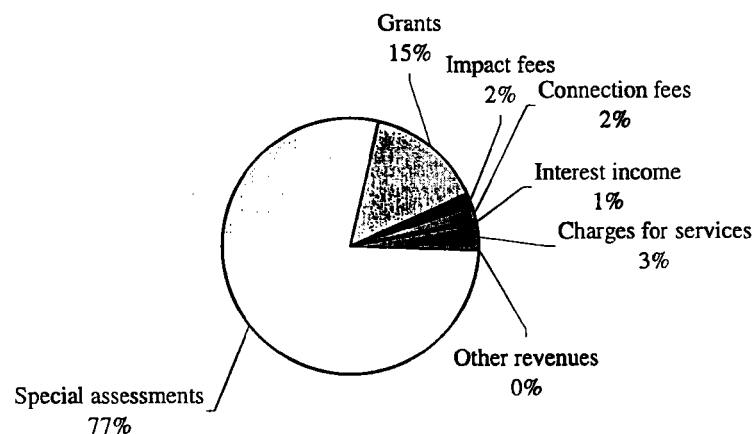
Business Type Activities

The following graphs present water fund revenues and operating expenses compared with prior year activity.

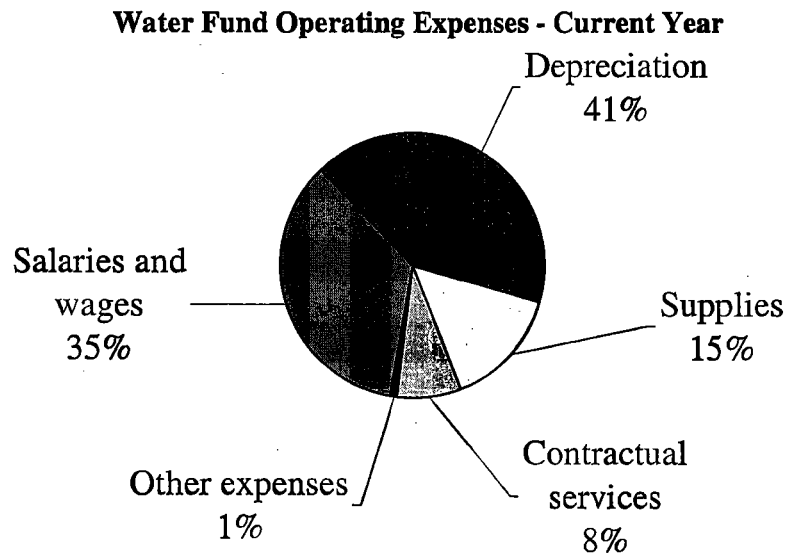
WATER FUND REVENUES BY SOURCE Year ended June 30, 2004 and 2005

	6/30/2004	6/30/2005
REVENUES:		
Charges for services	\$76,708	\$ 75,570
Other revenues	3,534	116
Special assessments	-	1,708,000
Grants	-	320,000
Impact fees	18,105	40,002
Connection fees	-	35,375
Interest income	5,955	12,184
Total Revenues	<u>\$104,302</u>	<u>\$ 2,191,247</u>

Revenues by Source - Current Year



	<u>6/30/2004</u>	<u>6/30/2005</u>
OPERATING EXPENSES:		
Salaries and wages	\$ 28,090	\$ 32,038
Depreciation	33,325	42,054
Supplies	11,892	10,249
Contractual services	6,276	7,671
Other expenses	644	1,461
	<hr/>	<hr/>
Total Operating Expenses	<u>\$ 80,227</u>	<u>\$ 93,473</u>



General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$58,327 less than actual expenditures. Actual revenues were more than the final budget by \$56,553 mainly due to the receipt of more intergovernmental revenue and sales tax than anticipated. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures for various projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions. Capital Assets include land, buildings and improvements, furniture and equipment, computers and software, and infrastructure. At the end of fiscal year 2005, net capital assets of the government activities totaled \$671,831 and the net capital assets in the business-type activities totaled \$2,328,994. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See notes to the financial statements.)

Debt

At year end, the City had \$1,647,667 in proprietary debt. The debt is a liability of the government and amounts to \$1,810.62 per capita based upon the 2000 census population figures. During the current fiscal year, the City's total debt decreased by \$66,479 net of additions of \$1,632,125. Special assessment bonds were issued during the year in the amount of \$1,590,000. (See note 7 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2005/2006, the City Council and management estimated the budget for operating revenues and expenditures to increase from 2004/2005 due the anticipated receipt of loan proceeds from the Community Impact Board to be used for the new City Hall.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Penny Greenwall, Treasurer, City of Toquerville at 212 North Toquer Blvd, Toquerville, UT 84774 or call 435-635-1094.

BASIC FINANCIAL STATEMENTS

CITY OF TOQUERVILLE
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 20,022	\$ 311,242	\$ 331,264
Receivables (net of allowance)	36,684	9,533	46,217
Temporarily restricted assets:			
Cash and cash equivalents	280,264	374,543	654,807
Special assessment receivable		1,602,207	1,602,207
Deferred bond issuance costs		32,448	32,448
Capital assets (net of accumulated depreciation):			
Land	75,000	-	75,000
Buildings and system	24,310	-	24,310
Improvements other than buildings	369,323	-	369,323
Machinery and equipment	17,511	14,554	32,065
Water distribution system	-	2,309,150	2,309,150
Water rights	-	5,290	5,290
Infrastructure	47,888	-	47,888
Construction in progress	137,799	-	137,799
Total assets	<u>1,008,801</u>	<u>4,658,967</u>	<u>5,667,768</u>
Liabilities			
Accounts payable and other current liabilities	22,229	7,363	29,592
Noncurrent liabilities:			
Due within one year	-	115,000	115,000
Due in more than one year	-	1,532,667	1,532,667
Total liabilities	<u>22,229</u>	<u>1,655,030</u>	<u>1,677,259</u>
Net Assets			
Invested in capital assets, net of related debt	671,831	681,327	1,353,158
Restricted for:			
Capital outlay	167,064	203,573	370,637
Debt service	-	1,773,177	1,773,177
Perpetual care	28,269	-	28,269
Other purposes	32,553	-	32,553
Unrestricted	86,855	345,860	432,715
Total net assets	<u>\$ 986,572</u>	<u>\$ 3,003,937</u>	<u>\$ 3,990,509</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
General government	\$ 105,008	\$ 11,317	\$ 1,335	\$ -	\$ (92,356)	\$ -
Public safety	29,591	50,953	313	-	21,675	-
Highways and streets	16,967	55,914	34,571	-	73,518	-
Culture and recreation	49,274	39,174	30,644	-	20,544	-
Sanitation	101,449	104,695	-	-	3,246	-
Community development	11,828	-	-	-	(11,828)	-
Total governmental activities	314,117	262,053	66,863	-	14,799	-
Business-type activities:						
Water distribution	94,359	75,686	-	2,103,377	-	2,084,704
Total business-type activities	94,359	75,686	-	2,103,377	-	2,084,704
General revenues:						
Taxes:						
Property taxes					44,235	-
Sales and use taxes					75,433	-
Fee in lieu					5,799	-
Franchise taxes					8,780	-
Unrestricted investment earnings					1,646	12,184
Gain on sale of capital assets					25,211	-
Total general revenues & transfers					161,104	12,184
Change in net assets					175,903	2,096,888
Net assets - beginning					784,697	811,692
Prior-period adjustment					25,972	95,357
Net assets - ending					\$ 986,572	\$ 3,003,937
					\$	\$ 3,990,509

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Capital Project City Hall	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 20,022	\$ -	\$ -	\$ 20,022
Accounts Receivables, net of allowance for doubtful accounts of \$1,900	12,325	-	-	12,325
Due from other governments	24,359	-	-	24,359
Cash - restricted	32,553	52,378	195,333	280,264
Total assets	<u>\$ 89,259</u>	<u>\$ 52,378</u>	<u>\$ 195,333</u>	<u>\$ 336,970</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 20,416	\$ -	\$ -	\$ 20,416
Accrued liabilities	1,813	-	-	1,813
Total liabilities	<u>22,229</u>	<u>-</u>	<u>-</u>	<u>22,229</u>
Fund Balances				
Reserved for:				
Highways and streets	28,292	-	119,131	147,423
Culture and recreation	-	-	47,933	47,933
Public safety	4,261	-	-	4,261
Perpetual care	-	-	28,269	28,269
Unreserved, designated for, reported in:				
Capital improvements - city hall	-	52,378	-	52,378
Unreserved, reported in:				
General fund	34,477	-	-	34,477
Total fund balances	<u>67,030</u>	<u>52,378</u>	<u>195,333</u>	<u>314,741</u>
Total liabilities and fund balance	<u>\$ 89,259</u>	<u>\$ 52,378</u>	<u>\$ 195,333</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	671,831
Net assets of governmental activities	<u>\$ 986,572</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General	Capital Project City Hall	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 43,733	\$ -	\$ -	\$ 43,733
Sales and use taxes	75,433	-	-	75,433
Fee in lieu	5,799	-	-	5,799
Franchise taxes	8,780	-	-	8,780
Licenses and permits	53,938	-	-	53,938
Intergovernmental revenue	54,828	-	-	54,828
Interest income	1,646	-	2,495	4,141
Contributions and donations	11,818	-	-	11,818
Charges for services	5,580	-	1,980	7,560
Cemetery	8,010	-	-	8,010
Refuse charges	42,058	-	-	42,058
Sewerage charges	62,638	-	-	62,638
Impact fees	-	-	77,541	77,541
Other revenues	8,632	-	-	8,632
Total revenues	382,893	-	82,016	464,909
Expenditures				
Current:				
General government	101,732	-	-	101,732
Public safety	29,459	-	-	29,459
Highways and streets	15,983	-	-	15,983
Culture and recreation	22,481	-	-	22,481
Cemetery	7,081	-	-	7,081
Sanitation	101,449	-	-	101,449
Economic development	11,828	-	-	11,828
Capital outlay	-	132,035	3,641	135,676
Total expenditures	290,013	132,035	3,641	425,689
Excess of revenues over (under) expenditures	92,880	(132,035)	78,375	39,220
Other financing sources (uses)				
Sale of assets	-	25,211	-	25,211
Transfers in	-	159,202	-	159,202
Transfers out	(93,574)	-	(65,628)	(159,202)
Total other financing sources (uses)	(93,574)	184,413	(65,628)	25,211
Net change in fund balances	(694)	52,378	12,747	64,431
Fund balance - beginning of year	67,724	-	182,586	250,310
Fund balance - end of year	\$ 67,030	\$ 52,378	\$ 195,333	\$ 314,741

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities
are different because:

Net change in fund balances - total governmental funds	\$ 64,431
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	112,493
Governmental funds report cash received from the sale of fixed assets as revenue. However, in the statement of activities, the costs of those asset and related accumulated depreciation needs to be written off and any gain/loss recognized. This is the amount of the gain/loss recognized on the disposal of assets.	<u>(1,021)</u>
Change in net assets of governmental activities	<u><u>\$ 175,903</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2005

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 42,500	\$ 42,500	\$ 43,733	\$ 1,233
Sales and use taxes	53,000	53,000	75,433	22,433
Fee in lieu	1,000	1,000	5,799	4,799
Franchise taxes	7,300	7,300	8,780	1,480
Licenses and permits	30,000	30,000	53,938	23,938
Intergovernmental revenue	41,250	41,250	54,828	13,578
Interest income	5,000	5,000	1,646	(3,354)
Contributions and donations	65	65	11,818	11,753
Charges for services	700	700	5,580	4,880
Cemetery	500	500	8,010	7,510
Refuse charges	38,400	38,400	42,058	3,658
Sewerage charges	57,600	57,600	62,638	5,038
Other revenues	7,525	49,025	8,632	(40,393)
Total revenues	284,840	326,340	382,893	56,553
Expenditures				
Current:				
General government	91,300	92,300	101,732	(9,432)
Public safety	27,500	27,500	29,459	(1,959)
Highways and streets	40,940	40,940	15,983	24,957
Culture and recreation	35,000	36,500	22,481	14,019
Cemetery	10,500	10,500	7,081	3,419
Sanitation	96,600	96,600	101,449	(4,849)
Economic development	5,000	19,000	11,828	7,172
Capital outlay	-	25,000	-	25,000
Total expenditures	306,840	348,340	290,013	58,327
Excess of revenues over (under) expenditures	(22,000)	(22,000)	92,880	(1,774)
Other financing sources (uses)				
Transfers out	(42,000)	(42,000)	(93,574)	(51,574)
Total other financing sources (uses)	(42,000)	(42,000)	(93,574)	(51,574)
Net change in fund balance	(64,000)	(64,000)	(694)	63,306
Fund balance - beginning of year	67,724	67,724	67,724	-
Fund balance - end of year	\$ 3,724	\$ 3,724	\$ 67,030	\$ 63,306

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Net Assets
Proprietary Fund
June 30, 2005

	<u>Water Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 311,242
Receivables, net of allowance	9,533
Current portion of special assessments receivable	108,000
Total current assets	<u>428,775</u>
Noncurrent assets:	
Cash and cash equivalents - restricted	374,543
Special assessments receivable	1,494,207
Deferred bond issuance costs	32,448
Capital assets:	
Machinery and equipment	25,394
Water distribution system	2,757,163
Water rights	5,290
Accumulated depreciation	(458,853)
Total noncurrent assets	<u>4,230,192</u>
Total assets	<u>4,658,967</u>
Liabilities	
Current liabilities:	
Accounts payable	6,500
Accrued liabilities	863
Current portion of noncurrent liabilities	115,000
Total current liabilities	<u>122,363</u>
Noncurrent liabilities:	
Bonds payable	1,647,667
Less current portion of noncurrent liabilities	(115,000)
Total noncurrent liabilities	<u>1,532,667</u>
Total liabilities	<u>1,655,030</u>
Net Assets	
Invested in capital assets, net of related debt	681,327
Restricted for:	
Debt service	1,773,177
Capital outlay	203,573
Unrestricted	345,860
Total net assets	<u>\$ 3,003,937</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2005

	<u>Water Fund</u>
Operating Revenues	
Charges for services	\$ 75,570
Other revenues	<u>116</u>
Total operating revenues	<u>75,686</u>
Operating Expenses	
Salaries and wages	29,600
Payroll taxes	2,438
Depreciation	42,054
Supplies	10,249
Contractual services	7,671
Other expenses	<u>1,461</u>
Total operating expenses	<u>93,473</u>
Operating income (loss)	<u>(17,787)</u>
Non-operating Revenues (Expenses)	
Special assessments	1,708,000
Grants	320,000
Impact fees	40,002
Connection fees	35,375
Interest income	12,184
Interest expense	<u>(886)</u>
Total non-operating revenues (expenses)	<u>2,114,675</u>
Income before transfers and contributions	2,096,888
Transfers in	<u>-</u>
Change in net assets	2,096,888
Net assets, beginning of the year	811,692
Prior-period adjustment	<u>95,357</u>
Net assets, end of the year	<u><u>\$ 3,003,937</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005

	<u>Water</u>
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 72,120
Cash paid to suppliers	(15,484)
Cash paid to employees	(32,038)
Cash flows from operating activities	<u>24,598</u>
Cash Flows From Noncapital Financing Activities:	
Transfers	<u>-</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of capital assets	(208,382)
Grant proceeds	320,000
SID assessment revenue	105,793
Long-term debt proceeds	1,590,000
Long-term debt paid	(1,656,479)
Bond issuance costs	(32,448)
Impact fees	40,002
Connection fees	35,375
Interest paid	(2,718)
Cash flows from capital and related financing activities	<u>191,143</u>
Cash Flows From Investing Activities:	
Interest on investments	<u>12,184</u>
Net Change in Cash and Cash Equivalents	227,925
Cash and cash equivalents, beginning of year	457,860
Cash and cash equivalents, end of year	<u><u>\$ 685,785</u></u>
Reconciliation of operating loss to cash flows from operating activities:	
Net operating income (loss)	\$ (17,787)
Adjustments to reconcile net income to cash flows from operating activities:	
Depreciation	42,054
Changes in operating assets and liabilities	
(Increase)/Decrease in receivables	(3,566)
Increase/(Decrease) in accounts payable	3,897
Net cash flows from operating activities	<u><u>\$ 24,598</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies

General

The City of Toquerville (City) is incorporated under the laws of the State of Utah. The City operates under a council form of government and provides the following services: general government, public safety, highways and streets, culture and recreation, sanitation, community development, and water distribution services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as recorded as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

Property taxes, sales taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government except for those required to be accounted for in another fund.

The **City Hall Capital Projects Fund** is used to account for various contributions and transfers that are restricted or designated for the city hall project.

The City reports the following major proprietary fund:

The **Water Fund** accounts for the activities related to the City's water operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants as contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, all general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

Receivables

All trade accounts receivables in the general fund and the proprietary fund are shown net of an allowance for uncollectibles.

Taxes

Property taxes are collected by the Washington County Treasurer and remitted to the City in monthly installments. Taxes are levied each October on the taxable value listed as of the prior January 1 for all real property located in the City. Taxable values are established by the County Assessor at a percent of the fair market value on primary residential property and 100 percent of the fair market value on non-primary residential property. A revaluation of all property is required to be completed no less than every five years. Taxes are due and payable on November 1 and delinquent after November 30 of each year, at which time they become liens if not paid.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the City's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

Capital Assets

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the assets estimated useful lives.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred. Significant renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets in governmental funds, which include property, plant, equipment, and infrastructure, are reported in the government-wide financial statements. Capital assets are defined as assets with an individual cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

In accordance with GASB 34, the City has opted not to retroactively report infrastructure fixed assets. Infrastructure normally includes assets such as roads, curb and gutter, sidewalks, street lighting, storm drains and other improvements.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and system	20-40 years
Improvements other than buildings	15-30 years
Machinery and equipment	5-20 years
Water distribution system	10-40 years
Infrastructure	20-50 years

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

Compensated Absences

During the fiscal year ended June 30, 2005 the City had no full time employees. No amount is recorded for compensated absences since there is no liability for such absences.

Long-term Obligations

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Use of Restricted Assets

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and government-wide statement of net assets:

The governmental fund balance sheet includes reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. The differences primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet.

When capital assets (property, plant & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net asset includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 753,424
Accumulated depreciation	<u>(81,593)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ 671,831</u></u>

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	\$ 133,297
Depreciation expense	<u>(20,804)</u>
Net adjustment to increase net changes in fund balance total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 112,493</u></u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 3. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

Annual budgets are reported and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1 in accordance with State Law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State Law, at the department level. Budget amendments are required to increase expenditure budgets and are adopted, in a public hearing, before the end of the fiscal year.

The governmental fund type budgets are prepared using the modified accrual basis of accounting. Budgets for the proprietary fund are prepared using the accrual basis of accounting.

During the current fiscal year, budget amendments were made to prevent budget overruns and to increase appropriations for unanticipated expenditures.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

Taxes

Property taxes are collected by the Washington County Treasurer and remitted to the City in monthly installments. Taxes are levied each October on the taxable value listed as of the prior January 1 for all real property located in the City. Taxable values are established by the County Assessor at a percent of the fair market value on primary residential property and 100 percent of the fair market value on non-primary residential property. A revaluation of all property is required to be completed no less than every five years. Taxes are due and payable on November 1 and delinquent after November 30 of each year, at which time they become liens if not paid.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 4. Deposits and Investments

Deposits and investments of the City at June 30, 2005 consist of the following:

Deposits:	
Cash in bank	\$ 421,739
Investments:	
State Treasurer's Investment Pool	<u>564,332</u>
Total Deposits and Investments	<u><u>\$ 986,071</u></u>

A reconciliation of cash and investments as shown on the statement of net assets is as follows:

Cash and cash equivalents	\$ 331,264
Restricted cash and cash equivalents	<u>654,807</u>
	<u><u>\$ 986,071</u></u>

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2005, \$224,691 of the City's bank balance of \$424,691 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 4. Deposits and Investments, Continued

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended.

The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 4. Deposits and Investments, Continued

As of June 30, 2005 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 564,332	\$ 564,332	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 564,332</u>	<u>\$ 564,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2005 the City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 564,332	\$ -	\$ -	\$ -	\$ 564,332
Total Fair Value	<u>\$ 564,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 564,332</u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 5. Receivables

Accounts receivable in the general fund consists of sanitation billings receivable, which includes an allowance for uncollectible accounts of \$1,900. Accounts receivable in the proprietary fund consists of water billings receivable, which includes an allowance for uncollectible accounts of \$1,000.

Due from other governments in the general fund consists of \$14,889 due from the State Tax Commission for sales tax and \$9,470 due from the State of Utah for class B and C road money.

The City created the Anderson Junction Special Improvement District (SID) in 2001 to provide for the construction of water system improvements. During fiscal year 2005, assessments associated with the SID were levied upon the real property owners, within the City, who will benefit from the SID. The assessments will be collected by the City during the 11 years following the levy. The total amount levied was \$1,708,000 of which \$105,793 was prepaid in fiscal year 2005 and \$108,000 is receivable during fiscal year 2006 and is shown as a current receivable.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 6. Capital Assets

The following table summaries the changes to capital assets for governmental activities during the year:

Governmental Activities:	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Capital assets, not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Construction in progress	5,764	132,035	-	137,799
Total capital assets, not being depreciated	<u>80,764</u>	<u>132,035</u>	<u>-</u>	<u>212,799</u>
Capital assets, being depreciated:				
Buildings & improvements	37,032	-	-	37,032
Improvements other than buildings	424,106	-	-	424,106
Furniture & equipment	30,706	1,262	(1,680)	30,288
Infrastructure	49,200	-	-	49,200
Total capital assets, being depreciated	<u>541,044</u>	<u>1,262</u>	<u>(1,680)</u>	<u>540,626</u>
Less accumulated depreciation for:				
Buildings & improvements	(11,458)	(1,264)	-	(12,722)
Improvements other than buildings	(40,530)	(14,253)	-	(54,783)
Furniture & equipment	(9,133)	(4,303)	659	(12,777)
Infrastructure	(328)	(984)	-	(1,312)
Total accumulated depreciation	<u>(61,449)</u>	<u>(20,804)</u>	<u>659</u>	<u>(81,594)</u>
Total capital assets, being depreciated, net	<u>479,595</u>	<u>(19,542)</u>	<u>(1,021)</u>	<u>459,032</u>
Governmental activities capital assets, net	<u>\$ 560,359</u>	<u>\$ 112,493</u>	<u>\$ (1,021)</u>	<u>\$ 671,831</u>

Depreciation expense was charged to the functions/programs of the City as follows:

General government	\$ 4,538
Highways and streets	984
Culture & recreation	15,150
Public safety	132
Total depreciation expense - governmental activities	<u>\$ 20,804</u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 6. Capital Assets, Continued

The following table summaries the changes to capital assets for business-type activities during the year.

Business Type Activities:	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Capital assets, not being depreciated:				
Water shares	\$ 5,290	\$ -	\$ -	\$ 5,290
Total capital assets, not being depreciated	<u>5,290</u>	<u>-</u>	<u>-</u>	<u>5,290</u>
Capital assets, being depreciated:				
Water distribution system	945,679	1,811,485	-	2,757,164
Equipment	25,394	-	-	25,394
Construction in progress	1,603,102	-	(1,603,102)	-
Total capital assets, being depreciated	<u>2,574,175</u>	<u>1,811,485</u>	<u>(1,603,102)</u>	<u>2,782,558</u>
Less accumulated depreciation for:				
Water distribution system	(407,493)	(40,520)	-	(448,013)
Equipment	(9,306)	(1,535)	-	(10,841)
Total accumulated depreciation	<u>(416,799)</u>	<u>(42,055)</u>	<u>-</u>	<u>(458,854)</u>
Total capital assets, being depreciated, net	<u>2,157,376</u>	<u>1,769,430</u>	<u>(1,603,102)</u>	<u>2,323,704</u>
Business-type activities capital assets, net	<u>\$ 2,162,666</u>	<u>\$ 1,769,430</u>	<u>\$ (1,603,102)</u>	<u>\$ 2,328,994</u>

During the year, interest of \$54,668 was capitalized as part of the Anderson Junction project, which is included as an addition to the water distribution system shown above.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 7. Long-term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2005:

	Balance 6/30/2004	Additions	Retirements	Balance 6/30/2005	Current Portion
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 64,667	\$ -	\$ (7,000)	\$ 57,667	\$ 7,000
Special assessment bonds	-	1,590,000	-	1,590,000	108,000
Total bonds payable	64,667	1,590,000	(7,000)	1,647,667	115,000
Notes payable	1,649,479	42,125	(1,691,604)	-	-
Total long-term liabilities	\$ 1,714,146	\$ 1,632,125	\$ (1,698,604)	\$ 1,647,667	\$ 115,000

The annual requirements to amortize bonds payable at June 30, 2005 are as follows:

Fiscal Year Ended June 30,	Business-type Activities	
	Principal	Interest
2006	115,000	72,127
2007	128,000	67,197
2008	133,000	61,682
2009	139,000	55,942
2010	145,000	49,932
2011-2015	808,667	149,886
2016	179,000	8,055
Total	\$ 1,647,667	\$ 464,821

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 7. Long-term Debt, Continued

The following is a listing of long-term debt outstanding as of June 30, 2005:

Business-type activities

Bonds payable:

Water Revenue Bonds - Series 1990, due in annual principal and interest installments ranging from \$6,733 to \$8,227 bearing interest at 1.00%, maturing January 1, 2013.	\$ 57,667
--	-----------

Special Assessment Bonds - Series 2005, due in annual principal and interest installments ranging from \$179,550 to \$187,690, bearing interest at 4.50%, maturing June 1, 2016.	1,590,000
---	-----------

Total bonds payable	<u>1,647,667</u>
---------------------	------------------

Total long-term liabilities	1,647,667
-----------------------------	-----------

Less current portion:	<u>(115,000)</u>
-----------------------	------------------

Net long-term liabilities	<u><u>\$ 1,532,667</u></u>
---------------------------	----------------------------

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

The Governmental Accounting Standards Board requires special assessment debt to be recorded on the books when establishment and maintenance of a reserve fund is required; however, the Assessment Bonds are not general obligations of the City, but are payable exclusively out of the Assessment Fund and the Debt Service Reserve Fund. The City shall not be held liable for the payment of the Assessment Bonds, except to the extent of the Assessment Fund and Debt Service Reserve Fund, but shall be held responsible for the lawful levy of all regular assessments, for the maintenance of the Debt Service Reserve Fund as provided by law, and for the faithful accounting, collection, settlement and payment of the assessments and the moneys in said Funds.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 8. Interfund Receivables, Payables and Transfers

As of June 30, 2005, there were no interfund receivables or payables.

Interfund transfers for the fiscal year ended June 30, 2005 are as follows:

	Transfers In:				
	General Fund	Capital Improvements City Hall	Nonmajor Governmental Funds	Water Fund	Total
Transfer out:					
General Fund	\$ -	\$ 93,574	\$ -	\$ -	\$ 93,574
Capital Improvements City Hall	-	-	-	-	-
Nonmajor Governmental Funds	-	65,628	-	-	65,628
Water Fund	-	-	-	-	-
Total transfers out	<u>\$ -</u>	<u>\$ 159,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,202</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9. Equity Classifications

Equity is classified in the government-wide financial statements as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 9. Equity Classifications, Continued

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved or unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

At June 30, 2005, the City's reserved fund balances are as follows:

General Fund:

Class B & C roads	\$ 28,292
State Liquor	<u>4,261</u>
Total	<u><u>\$ 32,553</u></u>

Capital Projects Funds:

Nonmajor capital projects fund:

Impact fees - streets	\$ 119,131
Impact fees - parks	<u>47,933</u>
Total	<u><u>\$ 167,064</u></u>

Permanent Fund:

Cemetery perpetual care	<u><u>\$ 28,269</u></u>
-------------------------	-------------------------

Water Fund:

Debt reserves:

Water revenue bonds - series 1990:

Sinking fund	\$ 3,500
Reserve and repair	8,470

Special assessment bonds -series 2005:

Debt service reserve	159,000
Special assessment receivable	<u>1,602,207</u>
Total debt reserves	<u>1,773,177</u>

Impact fees - water	<u>203,573</u>
Total	<u><u>\$ 1,976,750</u></u>

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 10. Retirement and Pension Plans

As of June 30, 2005, the City did not have any employees that participate in the Utah State-Wide Local Government Retirement System.

NOTE 11. Segment Information - Enterprise Fund

The City maintains one enterprise fund (water fund) which provides water utility services to its citizens. Since the water fund is a major fund, detailed or segment information for the fund is provided in the basic financial statements.

NOTE 12. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by the Scottsdale Indemnity Company and Old Republic Surety Company. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

NOTE 13. Sewer and Garbage Contracts

The City has sanitation contracts with the Ash Creek Special Service District and the Washington County Solid Waste Special Service District. The City is responsible for monthly billings, collections, and payments to the districts, which is accounted for in the General Fund.

CITY OF TOQUERVILLE
Notes to the Financial Statements
June 30, 2005

NOTE 14. Prior-period Adjustments

Prior-period adjustments are the net effect of changes resulting from the correction of an error. Because such amounts are the product of errors from a prior period, they are not properly included as part of the results of operations of the current period, even though they are reported in the current period. Instead, such adjustments are properly reported as a direct adjustment to equity—beginning of the fiscal year to restate that amount to what it would have been had the error not occurred.

The following prior-period adjustments were made during the current period:

Permanent Fund:

The fund balance of the Permanent Fund was not included in the government-wide statements of the City's fiscal year ended June 30, 2004 financial statements. An adjustment is made to include the Permanent Fund's fund balance of \$25,972 in the net assets of the government-wide financial statements.

Water Fund:

The City's fiscal year ended June 30, 2004 Statement of Net Assets for the Water Fund included a payable to the Washington County Water Conservancy District (WCWCD) due to water connection fees that were collected by the City. These fees are not payable to the WCWCD and are revenue to the City. An adjustment is made to increase the Water Fund's net assets by \$57,000.

The City's fiscal year ended June 30, 2004 Statement of Revenues, Expenses and Changes in Fund Net Assets for the Water Fund included interest expense relating to the Anderson Junction SID improvements that should have been capitalized. An adjustment is made to increase the Water Fund's net assets by \$38,357.

The net prior-period adjustment made to the Water Fund is summarized in the business-type fund and the government-wide financial statements as follows:

Connection fee revenue	\$ 57,000
Capitalized interest	38,357
Net prior-period adjustment	<u>\$ 95,357</u>

SUPPLEMENTARY INFORMATION

CITY OF TOQUERVILLE
Supplementary Information
June 30, 2005

The Water System Revenue Bond Resolution sets forth certain covenants and restrictions. The City is in compliance with all covenants and restrictions for the Water Bond requirements. Adequate funds are available in the water fund for reserve requirements.

Additional disclosures requirement by the Resolution are:

- a. Number of connections with the boundaries of the City at June 30, 2005 402
- b. Total billings for the fiscal year ended June 30, 2005 \$ 75,570
- c. Average monthly billing per customer \$ 16.41
- d. Water rates for the fiscal year ended June 30, 2005 are as follows:

0 to 10,000 gallons	\$18.00 per month
10,001 to 30,000 gallons	\$ 0.50 per 1,000 gallons
30,001 to 50,000 gallons	\$ 0.75 per 1,000 gallons
50,001 gallons and over	\$ 1.00 per 1,000 gallons

- e. Insurance coverage in effect at June 30, 2005:

Type	Policy Number	Effective	Expires	Limits
Coverage with Scottsdale Indemnity Company:				
General liability	CL00040318	07/01/04	07/01/05	\$ 2,000,000
Property	CL00046349	07/01/04	07/01/05	\$ 218,000
Public officials wrongful act	PO420760	07/01/04	07/01/05	\$ 1,000,000
Auto	CAI0016432	07/01/04	07/01/05	\$ 1,000,000
Co Treasurer's bond	1171584	09/01/04	09/01/05	\$ 47,000
Recorder's bond	1171584	09/01/04	09/01/05	\$ 47,000

SUPPLEMENTARY INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS

Capital Projects Fund

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

- **Impact Fee Fund** – This fund is used to account for the collection of impact fees and the expenditure of these fees on streets and parks.

Permanent Fund

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for the purposes that support the reporting government's programs.

- **Perpetual Care Fund** – This fund is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

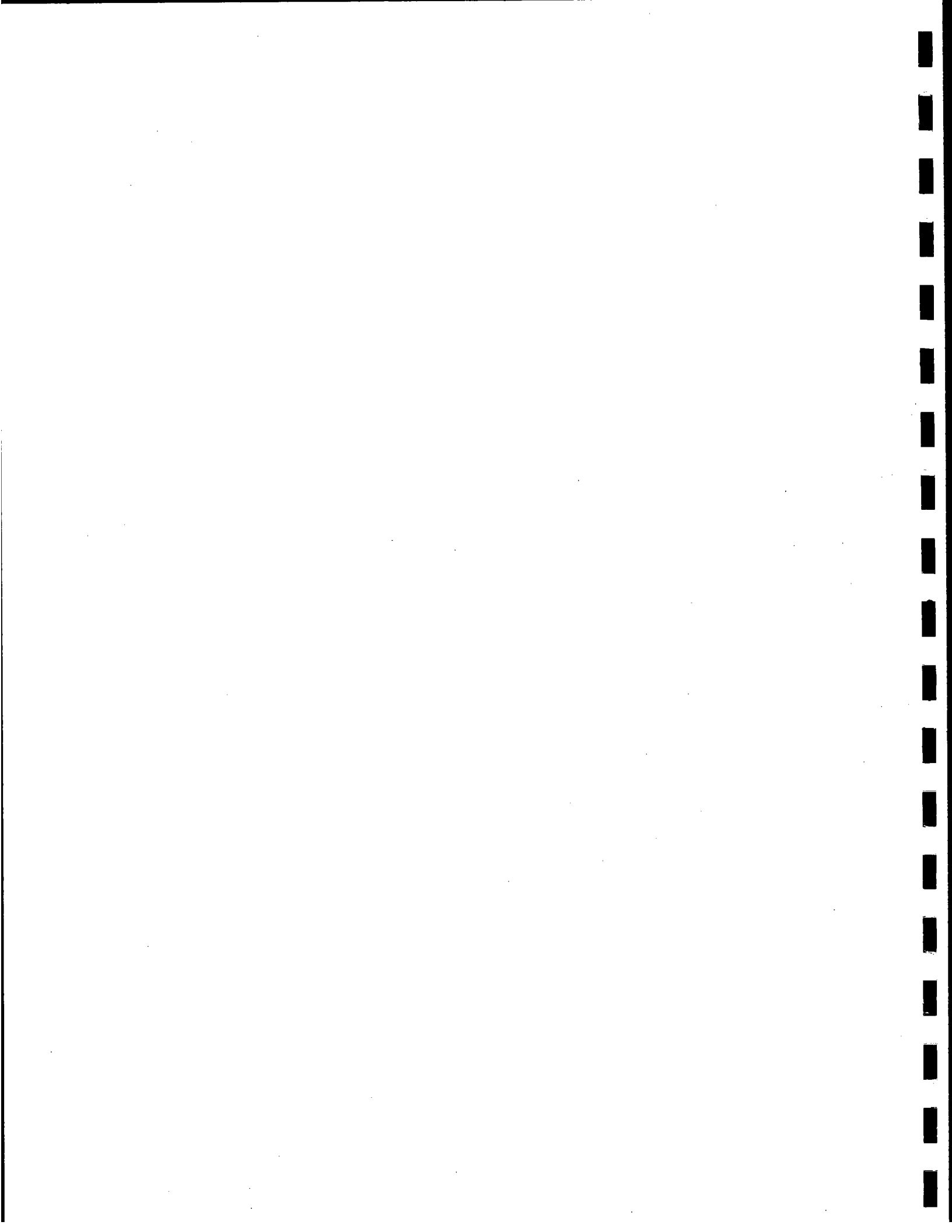
CITY OF TOQUERVILLE
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	<u>Capital Projects</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Impact Fees</u>	<u>Perpetual Care</u>	
Assets			
Cash and cash equivalents - restricted	\$ 167,064	\$ 28,269	\$ 195,333
Total assets	<u>167,064</u>	<u>28,269</u>	<u>195,333</u>
Fund Balances			
Reserved for:			
Highways and streets	119,131		119,131
Culture and recreation	47,933		47,933
Perpetual care		28,269	28,269
Total fund balance	<u>\$ 167,064</u>	<u>\$ 28,269</u>	<u>\$ 195,333</u>

CITY OF TOQUERVILLE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Capital Projects	Permanent Fund	Total Nonmajor Governmental Funds
	Streets and Park	Perpetual Care	
Revenues			
Impact fees	\$ 77,541	\$ -	\$ 77,541
Interest income	2,178	317	2,495
Perpetual care fees	-	1,980	1,980
Total revenues	<u>79,719</u>	<u>2,297</u>	<u>82,016</u>
Expenditures			
Capital outlay	<u>3,641</u>	-	<u>3,641</u>
Total expenditures	<u>3,641</u>	-	<u>3,641</u>
Excess of revenues over (under) expenditures	<u>76,078</u>	<u>2,297</u>	<u>78,375</u>
Other financing sources (uses)			
Transfers out	<u>(65,628)</u>	-	<u>(65,628)</u>
Total other financing sources (uses)	<u>(65,628)</u>	-	<u>(65,628)</u>
Net change in fund balances	10,450	2,297	12,747
Fund balance - beginning of year	<u>156,614</u>	<u>25,972</u>	<u>182,586</u>
Fund balance - end of year	<u>\$ 167,064</u>	<u>\$ 28,269</u>	<u>\$ 195,333</u>

FEDERAL AND STATE REPORTS



**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.L.C.

CPA'S & ADVISORS

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Members of the City Council
Toquerville, Utah

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the basic financial statements of the City of Toquerville, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Toquerville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance, which we have reported to management of the City of Toquerville in a separate letter dated December 21, 2005.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Toquerville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Toquerville in the accompanying management letter dated December 21, 2005.

This report is intended for the information of the mayor, audit committee, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
December 21, 2005



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
Members of the City Council
Toquerville, Utah

MEMBERS:
KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toquerville, Utah for the year ended June 30, 2005, and have issued our report thereon dated December 21, 2005. As part of our audit, we have audited the City of Toquerville's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property tax Limitations
Liquor Law Enforcement
B & C Road Funds
Other General Compliance Issues
Uniform Building Code
Impact Fees & Other Development Fees
Asset Forfeitures

The management of the City of Toquerville is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material non-compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of non-compliance with the requirements referred to above, which are described in the accompanying schedule of findings and recommendations. We considered these instances of non-compliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Toquerville, Utah, complied, in all material aspects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
December 21, 2005



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

**CITY OF TOQUERVILLE
Findings and Recommendations
For the Year Ended June 30, 2005**

MEMBERS:

**KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR**

Honorable Mayor and
City Council
City of Toquerville, Utah

During our audit of the funds of the City of Toquerville for fiscal year 2004-2005, we noted improvements in the City's accounting and budgeting system and wish to commend the City for making changes and improvements. We also noted areas needing corrective action in order for the City to be in compliance with laws and regulations and we found circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration:

Compliance Findings and Recommendations:

05-01. Budgetary Compliance

Finding

Utah law states that officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. We noted that general government, public safety, and sanitation department expenditures exceeded the final appropriation amounts for the year ended June 30, 2005. We also noted that transfers from the general fund to other funds exceeded the final budget appropriations.

Recommendation

We recommend that the City monitor closely the expenditures for each department to ensure that budget overruns do not occur in future fiscal periods. We also recommend that the City amend its budget when additional revenues or expenditures are anticipated which were not included in the original budget.

05-02. Budgeted Property Tax Revenues

Finding

The Tax Commission requires the filing of form TC-693 *Tax Rate Summary*. The form includes a column "Budgeted Revenue." The amounts in that column should be the same as the revenue amounts in the entity's adopted budget.

We noted during our audit that the budgeted revenue column on the TC-693 for the applicable year was \$34,000 while the budgeted revenue per the City's final adopted budget was \$40,000

Recommendation

We recommend that the City establish a procedure to ensure that the budgeted property tax revenues for the fiscal year always agrees with the TC-693 budgeted revenues for the appropriate fiscal year.

05-03. Audit Report

Finding

Due to staffing changes, late engagement of the independent auditor and other conditions, the City failed to submit its audit report to the State Auditor before the December deadline.

Recommendation

We recommend that the City establish procedures to ensure that the audit report is submitted in a timely manner.

05-04. Impact Fee Accounting

Finding

The State of Utah Legal Compliance audit guide states the following:

"Each local political subdivision collecting impact fees shall:

- a. establish separate interest-bearing ledger accounts for each type of public facility for which an impact fee is collected;
- b. deposit impact fee receipts in the appropriate ledger account;
- c. retain the interest earned on each fund or account in the fund or account; and
- d. at the end of each fiscal year, prepare a report on each fund or account showing:
 - 1) the source and amount of all monies collected, earned, and received by the fund or account; and
 - 2) each expenditure from the fund or account.

This report is a public document and should be available for public inspection during regular office hours. (*Utah Code 11-36-301*)"

We concluded during our test work, that impact fees are being collected properly and spent in accordance with State law; however, as is stated in item d. above, a report was not prepared by management at year end to show an accounting for the impact fees.

Recommendation

We recommend that management prepare an accounting as specified above at the end of each fiscal year for impact fees to comply with State law. As the schedule is prepared, it should clearly indicate whether the impact fees have been spent within the six year time frame designated by law.

General Findings and Recommendations:

05-01. Segregation of Duties

Findings

We understand that the size of the City and its administrative staff prohibit the complete and proper segregation of duties within its accounting functions; as a result, custody of assets and recording functions are not properly segregated for the cash receipts and expenses/accounts payable functions. Management has implemented controls such as management's review of disbursements that mitigate this weakness such that it is not deemed to be a material weakness; however, such segregation of duties provide important safeguards and controls to insure the proper recording, deposit and disposition of the City's funds.

Recommendation

As the City continues to grow and additional staff are considered necessary, we recommend that management consider ways that segregation of duties can be achieved within its accounting and administrative functions. We would be happy to assist the City in the design and/or implementation of job descriptions and duties to properly achieve this segregation. We also recommend that management continue to monitor disbursements and consider reviewing bank reconciliations to further mitigate the lack of segregation. Also see finding 05-03 in this section for further recommendations on this issue.

05-02. Toquerfest Bank Account

Finding

During our test work, we discovered that the Toquerfest bank account was not on the books of the City. Upon discovery of this account, we noted that the City's staff immediately took over the accounting records and authority to execute transactions in behalf of the City from those parties involved.

Recommendation

We recommend that the City re-emphasize its established centralized accounting system procedures. All financial transactions should be under the supervision of the City Treasurer and governing Council. All receipts and disbursements of funds related to the City should be handled through the established centralized accounting system.

05-03. Disbursement Documentation / Organization / Controls

Finding

Upon examination of the disbursement records of the City, we observed a few transactions that were not properly documented. We also observed that the general organization of the disbursement records made it difficult to review the documentation for disbursement transactions.

Recommendation

We recommend that the City immediately organize all disbursements into alphabetized vendor files for better organization. A copy of the check stub should be attached to the invoice being paid. As invoices are paid, they should be stamped "Paid" to avoid being paid twice. All disbursements by the City should have an invoice or some type of documentation attached to the check stub that clearly indicates what the disbursement is for, what general ledger account the transaction was coded too, and how the transaction was authorized. If the City Council continues to authorize all disbursements, then an easy to follow record should be maintained showing the authorization for all disbursement transactions. In regards to transaction authorization, we recommend that the City Council give the City Treasurer authority to pay items below a certain dollar amount. The City Council or audit committee should provide oversight by designating a council member or audit committee member to review the bank reconciliations each month. The City Council or audit committee should also review a budget to actual financial statement on a monthly or quarterly basis to provide additional oversight. We would be happy to discuss this finding and recommendation with you in more detail.

05-04. Segregation of Governmental-Type Activities and Business-Type Activities

Finding

During our examination, we reviewed a number of transactions that should have been coded to the water fund but were coded to the general fund instead. For example, water fund receivables are currently posting to the general fund, water meter sales revenue are currently posting to the general fund, and project costs for the Anderson Junction project was erroneously budgeted for and coded to the general fund. Adjusting entries were proposed and accepted by management to correct these errors, but greater delineation between the funds needs to be re-emphasized.

Recommendation

We recommend that the City re-examine its procedures for properly segregating water fund (Business-Type) transactions from general fund (Governmental-Type) transactions. We recommend that the City correct any Caselle posting procedures that may be perpetuating this problem.

05-05. Coding Consistency

Finding

While performing our test work for fiscal year 2005, we noted several coding errors. We also noted that significant improvements have been made by the current staff to correct this issue.

Recommendation

We recommend that the City's accounting staff continue to focus on being consistent with transaction coding. Generally speaking, transactions should be coded to the account for which the transactions were budgeted.

Responses

Please respond to the above findings and recommendations in letter form for submission to the State Auditor's office as required by State law.

This letter is intended solely for the use of the Mayor, City Council, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to each of you who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
December 21, 2005



Historic City of

Toquerville

Settled 1858

"It's the People"

P.O. Box 27
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Toquerville, Utah 84774

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FAX 435.635.2826
info@ci.toquerville.ut.us
www.ci.toquerville.ut.us

February 22, 2006

State of Utah
Office of the State Auditor
Austin G. Johnson, CPA
Utah State Capitol Complex
East Office Building, Suite E310
PO Box 142310
Salt Lake City, Utah 84114-2310

Dear Mr. Johnson,

The following is in response to the findings and recommendations of Kemp, Burdick, Hinton & Hall, fiscal year 2005 for Toquerville City.

State Compliance Findings and Recommendations:

05-01. Budgetary Compliance

Toquerville City will make every effort to operate within the parameters of the adopted budget. If it is necessary, the budget will be opened and amended following the guidelines set forth by the State of Utah.

05-02. Budgeted Property Tax Revenues

Toquerville City's Treasurer will make every effort to record the correct budgeted revenue on the Utah State form TC-693. Her work will be reviewed by the City Recorder before the completed form is filed with the State of Utah.

05-03. Audit Report

Toquerville City plans to retain our current auditor for the 2006 audit. This alone will alleviate the delay in filing, due to the amount of work involved in compiling records for the first year of an engagement. Our staff will also be completely familiar with the records required for an audit and will be able to assist the auditor in a more timely and efficient manner.

05-04. Impact Fee Accounting

Toquerville City's Treasurer will prepare an accounting of the impact fees that are collected. This accounting will indicate whether the impact fees collected have been spent in accordance with Utah State law.

General Findings and Recommendations:

05-01. Segregation of Duties

Toquerville City is currently considering the establishment of an "Audit Committee" that will assist in some of the checks and balances required in a municipality. Because our staff consists of a Treasurer and Recorder exclusively, our current segregation of duties will have to suffice until further staffing is justified. Currently, our Treasurer oversees all financial matters. She is responsible for the cash receipting, accounts receivable, bank reconciliation and general ledger work. Our Recorder is responsible for our accounts payable. The Treasurer, as well as the City Council and Mayor, reviews the Recorder's monthly expenditure requests before they are disbursed.

05-02. Toquerfest Bank Account

The City staff and City Council now control this bank account. The City has all financial records in possession. Toquerville City will make a point to re-emphasize the necessity of all financial transactions be handled through the City's centralized accounting system.

05-03. Disbursement Documentation/Organization/Controls

Toquerville City staff is currently revamping our accounts payable filing system. We are organizing all disbursements into alphabetized vendor files. We are attaching a copy of the check stub to the invoice being paid. As the invoices are being paid, it is stamped as "Paid" with the date of payment. We are recording the general ledger account on the invoice or check. We are filing the authorization by the City Council of all expenditures by month. The Treasurer has authority to pay any reoccurring monthly bills as needed. The City Council reviews all payments, and request for payments, at their regular monthly meeting. As stated before, Toquerville City is considering the possibility of acquiring an Audit Committee that can assist and consult in these procedures.

05-04. Segregation of Governmental-Type Activities and Business-Type Activities

Toquerville City's staff has reviewed the current accounting system and has made necessary changes to clarify the cash receipting code descriptions. General ledger accounts have been reviewed as well and some changes have been necessary. Toquerville City's staff will rectify any errors of the past and strive to record all future transactions correctly.

05-05. Coding Consistency

Toquerville City's current staff is committed to correctly and consistently coding transactions to their rightful accounts. They are striving to follow the budget allowances approved by the City Council for the 2006 fiscal year.

If you have any questions or comments concerning these matters, please feel free to contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Powell", written in a cursive style.

R. Kenneth Powell
Mayor

CC: Kemp, Burdick, Hinton & Hall, LC